

29th March, 1950.

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PRESENT: —

HIS EXCELLENCY THE GOVERNOR (SIR ALEXANDER WILLIAM GEORGE HERDER GRANTHAM, K.C.M.G.).

THE COLONIAL SECRETARY (HON. R. R. TODD, *Acting*).

THE ATTORNEY GENERAL (HON. J. B. GRIFFIN, K.C.).

THE SECRETARY FOR CHINESE AFFAIRS (HON. J. C. McDouALL, *Acting*).

THE FINANCIAL SECRETARY (HON. C. G. S. FOLLOWS, C.M.G.).

DR. HON. I. NEWTON (Director of Medical Services).

DR. HON. J. P. FEHILY, O.B.E. (Chairman, Urban Council).

HON. E. A. BOYCE (Director of Public Works).

HON. CHAU TSUN NIN, C.B.E.

HON. SIR MAN KAM LO, KT, C.B.E.

DR. HON. CHAU SIK NIN

HON. LEO D'ALMADA E CASTRO, K.C.

HON. M. M. WATSON.

HON. P. S. CASSIDY.

HON. C. E. M. TERRY.

MR. G. C. HAMILTON (Clerk of Councils).

ABSENT: —

HIS EXCELLENCY THE GENERAL OFFICER COMMANDING IN CHIEF (LIEUTENANT-GENERAL SIR E. C. R. MANSERGH, K.B.E., C.B., M.C.).

MINUTES.

The Minutes of the meeting of the Council held on 22nd March, 1950, were confirmed.

PAPERS.

THE COLONIAL SECRETARY, by Command of His Excellency the Governor, laid upon the table the following papers: —

The Hong Kong Air Force (Amendment) Regulations, 1950. (G.N. No. A. 59 of 1950).

The Registration of Persons (Amendment) Rules, 1950. (G.N. No. A. 60 of 1950).

The Dangerous Drugs Ord., 1935, —Exemption from the operation of the regulations. (G.N. No. A. 61 of 1950).

The Price Control Order, 1946, —Amendments to the Schedule. (G.N. No. A. 62 of 1950).

Third Annual Report of the Hong Kong War Memorial Fund Committee, 1949.

Report of the Select Committee on the Appropriation for 1950/1951 Bill, 1950.

QUESTIONS.

HON. CHAU TSUN-NIN asked the following question: —

By leave of the President, I wish to ask a question of an urgent character. With reference to the recent Dairy Farm Arbitration award, is it the intention of Government to extend the terms of this award to members of the Government service?

THE FINANCIAL SECRETARY replied as follows: —

No, Sir, the award relates to a dispute concerning the Dairy Farm employees and is not of general application.

HON. CHAU TSUN-NIN: —Your Excellency, may I ask a supplementary question?

H.E. THE GOVERNOR: —If it has a bearing on the original question.

HON. CHAU TSUN-NIN: Is it not the case that the Tramway Company is committed as well as the Dairy Farm? If so, may it be assumed that Government will take every step within its power to ensure that a wage increase is not passed on to the public by way of an increase in fares?

THE FINANCIAL SECRETARY: —Yes, Sir. Government will certainly not agree to any increase in fares. It will be appreciated that such action would only add momentum to the inflationary spiral which naturally Government is out to prevent.

**SUPPLEMENTARY APPROPRIATION FOR
1948-49 BILL, 1950.**

THE FINANCIAL SECRETARY moved the Second reading of a Bill intituled "An Ordinance to authorize the appropriation of a supplementary sum of thirty million one hundred and thirty-five thousand nine hundred and sixty-four dollars to defray the charges of the financial year ending 31st March, 1949."

THE COLONIAL SECRETARY seconded, and the Bill was read a Second time.

Council went into Committee to consider the Bill clause by clause.

Council then resumed.

THE FINANCIAL SECRETARY reported that the Supplementary Appropriation for 1948-49 Bill, 1950, had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded, and the Bill was read a Third time and passed into law.

AIR ARMAMENT PRACTICE (AMENDMENT) BILL, 1950.

THE ATTORNEY GENERAL moved the Second reading of a Bill intituled "An Ordinance to amend the Air Armament Practice Ordinance, 1949."

THE COLONIAL SECRETARY seconded, and the Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Clause 2:

THE ATTORNEY GENERAL: —Sir, I move that in clause 2, as to the proviso to be added by virtue of that clause, there be amendment by the deletion of the words in the second line of the proviso "as Practice Range (a) in" and by the substitution of the following words: "in paragraph (a) of". The amendment is proposed to correct an error in cross reference to the First Schedule of the principal Ordinance.

This was agreed to.

Council then resumed.

THE ATTORNEY GENERAL reported that the Air Armament Practice (Amendment) Bill, 1950, had passed through Committee with one amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded, and the Bill was read a Third time and passed into law.

DEFENCES (FIRING AREAS) (AMENDMENT) BILL, 1950.

THE ATTORNEY GENERAL moved the Second reading of a Bill intituled "An Ordinance to amend the Defences (Firing Areas) Ordinance, 1936."

THE COLONIAL SECRETARY seconded, and the Bill was read a Second time.

Council then went into Committee to consider the Bill clause by clause.

Council then resumed.

THE ATTORNEY GENERAL reported that the Defences (Firing Areas) (Amendment) Bill, 1950, had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded, and the Bill was read a Third time and passed into law.

APPROPRIATION FOR 1950-51 BILL, 1950.

The debate on the Second reading of the Appropriation for 1950-51 Bill, 1950, continued.

THE ATTORNEY GENERAL: Sir, I wish to refer briefly to two matters which were mentioned in the course of debate in this Council on the 22nd March. The Honourable Member, Mr. M. M. Watson, referred to the Landlord and Tenant Ordinance. In so doing he drew attention to the fact that in the corresponding debate of last year he had advanced a suggestion for the amendment of the Landlord and Tenant Ordinance. The suggestion was that it should be permissible for a landlord and a tenant to make an agreement regarding premises which are within the protection of the Ordinance and to make such agreement on the basis that the premises in question have become decontrolled.

The Honourable Member very naturally enquired as to what had become of his suggestion. Sir, in fact, the proposal, reasonably soon after it had been made, became incorporated

in a Bill for the amendment of the Landlord and Tenant Ordinance. It was intended that the suggestion should find its place as clause 4 of that Bill in repeal and replacement of the existing section 15. After the Bill was prepared it was referred to Government to decide upon the introduction of the Bill, and thereafter it received the consideration of Government and of Departments concerned with the amendments proposed.

This process has delayed effect being given to publication of this Bill for general information and comment, a course which I myself forecast a few months ago in mentioning the matter of the Landlord and Tenant Ordinance in this Council. Sir, I expect that the Bill, amended as a result of the consideration which has been given to it in the past month, will soon see the light of day. I would add that the Honourable Member's suggestion, as it appears in the Bill, provides that certain conditions shall be adhered to where there is an agreement in writing to exclude the application of the Ordinance from any particular tenancy. For instance, the proposal is made in the clause that any such agreement to be effective shall have a verified copy filed with the Quartering Authority.

I am glad to have this opportunity to apologize to the Honourable Member if the delay which has occurred has caused him to believe that his suggestion has not received the consideration which it certainly deserves. Feasible suggestions for the improvement of the Landlord and Tenant Ordinance are always welcome. This is legislation which is of general interest and importance. It is also legislation which is a frequent cause of complaint, but such complaint is seldom, however, accompanied by feasible suggestions for improvement.

Sir, the other matter upon which I would like to touch is that mentioned in the course of his speech by the Honourable Member, Mr. Terry. He referred to the Abercrombie Report and pressed for the enactment without delay of legislation to enable action to be taken to prevent haphazard or speculative development taking place in such a way as to hinder full effect being given to an adequate and proper town planning scheme for the Colony.

Sir, as to this, I would mention that the Abercrombie Report is expressed to be a preliminary planning report. It will be seen from paragraph 101 of the report that Sir Patrick Abercrombie stressed the need to prepare and work out a definitive plan. As to this recommendation, steps are being taken in the manner to which reference was made by Your Excellency in your speech in this Council on the 8th March. Now, again referring to the Abercrombie Report, at paragraphs 102, 104 and 107 it will be seen that the preparation of a comprehensive development plan in the Colony, for the Colony, is a basis on which further legislation will and should be drafted. As to the proper action to be taken to, as it were, hold the position in the manner indicated by the Honourable Member until a definitive

plan is completed, the situation is this: that all Government Departments concerned have, since the appearance of the Report, been concerned to apply its recommendations in so far as this can be done under the existing law and in regard to land which has not been alienated. Difficulty arises, of course, as regards the land which has already been alienated. As to this aspect an examination of the position is already being conducted to discover how far the objectives indicated by the Honourable Member can be attained, either with the aid of existing legislation or by the preparation and enactment of legislation specially designed for that purpose.

THE DIRECTOR OF MEDICAL SERVICES: —Sir, once again my Honourable Colleague Dr. S. N. Chau has referred to the Mental Hospital. As regards the buildings, surroundings, and facilities available, I can add little to the remarks I made at the Budget Debate of two years ago and again last year. Honourable Members will, however, appreciate that by the very circumstances of its existence a Mental Hospital must have a somewhat prison like effect on any visitor, more particularly if that visitor has not experienced working in a Mental Hospital, and if the majority of the patients are of the type that belong to, what is termed, the refractory ward.

This time, however, in addition to his reference to the institution, my honourable friend has referred to a most unfortunate incident which occurred in the Mental Hospital recently, and which involved the death of a patient from injuries. On account of this incident he has suggested that the administration of the Mental Hospital is at fault and has proposed that a commission should be appointed to investigate. My honourable colleague is a very busy man and I expect will not have had time to attend the death enquiry, but a death enquiry, a full death enquiry, was held by a coroner, assisted by a jury, at which all available information and facts were laid before the court, but at no time during that enquiry did the coroner or any member of the jury suggest that the administration of the hospital was at fault. I think, therefore, it may be assumed safely that they were satisfied with it. In view of this full enquiry Government does not consider that any useful purpose would be served by appointing a commission as proposed.

My honourable friend is a doctor and will know that mental patients can suffer serious fractures without apparent undue violence being exerted, and it may interest him to know that evidence to that effect was produced at the enquiry.

Sir, a Mental Hospital attendant is unarmed; he has only his bare hands with which to control his patients. A homicidal maniac is a very dangerous patient, not only to others but to himself, and I do not think it needs much imagination to picture circumstances in which a patient might receive injuries which might subsequently prove fatal, in which the attendants were not in any way to blame, still less the administration.

The Honourable Leo D'Almada complained of the insanitary conditions of certain market towns in the New Territories. He described them somewhat picturesquely as black spots. Well, black spots they are, but black with humanity and not with refuse.

These market towns, in recent months, have become important trading centres. In addition to their normal residents there flock, from any time after 7.30 in the morning, many small traders from over the border and from Hong Kong and Kowloon. These two streams meet in the market towns and exchange their wares during the daylight hours. In addition to this, as a result of the bombing on the Chinese side of the border, many refugees come over for shelter during the day-time and return to their own villages in China at nightfall. As may be imagined this large influx of people produces considerable congestion. This congestion is made worse by the motor traffic, lorries bringing in produce from China in one direction and from Kowloon in the other, buses, providing transport for the many traders, military vehicles and last but by no means least large numbers of private cars on pleasure trips and business trips, and this is not all, for to the more permanent residents of these towns have been added, during the last two years and particularly during the last few months, a very large but unknown number of newcomers who add their quota to the general congestion and production of refuse.

In order to compete with this problem an additional post of Senior Health Inspector was created during the year and extensive regulations to control markets, food, milk and other similar matters were introduced in September.

Sir, in a market town refuse presents the biggest sanitation problem, and in two out of these three market towns the town consists of one strip of road about 200 yards long which not only provide the scene of the market, but also the main thoroughfare for through traffic, and I think it is easy in such a case to appreciate the difficulties that the sanitary coolies, scavenging coolies and Health Inspectors have in carrying out their work. These market towns are scavenged and swept daily, and the refuse is burnt in an incinerator, but so difficult is the problem during the busy hours of the day that the scavenging has been abandoned during mid-day, the roads being well nigh impassable for scavenging purposes, and it is now done between 7.00 and 11.30 in the morning and 1.00 and 5.00 in the afternoon.

By 8.30 in the morning the coolies have had some time of uninterrupted work and these towns then present a far different appearance to that at mid-day and during the afternoon.

Would it be too much to suggest that the honourable member who has made this complaint should arise at dawn and pay a

visit to these towns between eight and nine in the morning? I think, then, he would form a far more favourable opinion of their sanitary state.

THE COLONIAL SECRETARY: —Sir, two Honourable Members commented adversely in last week's debate on what they described as the "deplorable condition" of our prisons as revealed in the Report of the Commissioner of Prisons for the year ending March, 1949. The Commissioner's complaint was that during the year under review no satisfactory works of rehabilitation or maintenance had been carried out to the prison buildings or to the staff quarters attached to them. This, as can be readily imagined, was largely a matter of priorities, occasioned by pressure of work and shortage of staff in the P.W.D., but I am glad to say that extensive repairs have now been carried out, are still proceeding and will be continued during the coming financial year. It is of interest to note that a considerable amount of the work has been done by the prisoners themselves as materials were supplied by the P.W.D.

The problem of an over-large prison population, with consequent overcrowding, continues to be with us. Preliminary examination shows that the problem to be overcome is mainly one of reducing the number of short-term sentences served in default of the payment of fines for offences against public health, unlicensed hawking, etc. A small inter-departmental committee, under the chairmanship of the Solicitor-General, is now sitting to investigate measures which might be taken to effect a reduction in the number of persons serving prison sentences, having regard both for the need for economy and for the desirability of ensuring that respect for law and order is fully maintained. If the committee is of the opinion that additional prison accommodation is required, it is empowered to consider whether a differentiation might be made in the type of accommodation, for instance a prison labour camp, provided for persons imprisoned in default of payment of a fine or for other short-term prisoners. It is clear that there is no quick way of reducing the prison population, but Honourable Members will no doubt agree that the subject merits close examination.

I should now like to say a few words about Education. The Hon. Sir Man-Kam Lo made some remarks in his speech last Wednesday about the relative cost to Government of pupils in Grant-in-Aid and in subsidized schools, coming to the conclusion that the cost of the former is five times the cost of the latter. On the figures quoted the mathematical result arrived at is correct, but it fails to take into account certain factors which the figures themselves do not show. In the first place, Grant-in-Aid covers the whole difference between approved expenditure and income from tuition fees whereas the subsidy is not less than half the difference. Were all schools subsidized 100% the cost would be \$2,600,000 instead of \$2,300,000. In the second place, the Grant-Aided schools teach in English and employ expatriate staff for whom passages and leave are necessary and

whose salaries are higher, while the local staff also receive 50% higher salaries than their fellow teachers in subsidized schools. Were these equalized the cost would further increase to \$3,120,000. With increased cost of living allowance the figure would be nearly \$3,800,000 for 27,500 children as against \$5,685,000 in Grant Schools for 13,750 children, or three times as much per child. In the third place, in the Grant-Aided Schools 50% of the pupils are receiving secondary education as against primary education in the subsidized schools. The cost per head per pupil in the secondary Queen's College is 2½ times as great as the cost in a Government Primary School. Compared in this way there is not quite the discrepancy which the Hon. Member would have us believe. The figures for schools in England are Primary £ 19.11.2., Secondary £ 46.7.9., or 2½ times as great. (Hertfordshire County Accountant 10.10.1947). Allowing for the differences in educational standards and the objects of the two schools, it would seem that our expenditure is very much in keeping with that of other places.

As regards the Hon. Member's proposal that a review of the whole question of Government expenditure on Education should be undertaken, preferably by experts from England, Government is sympathetic towards this request but would first like to obtain the views of the Director of Education and of the Board of Education. This will be done.

My Honourable Friend, Dr. S. N. Chau, urged that greater efforts should be made further to reduce the large number of children still seeking admission to schools. No one could be more in agreement with these remarks than I am, but in the first place there is a limit both to the rate of building and also to the number of children for whom we should provide places. It is probable that we now have places for all our real residents, but, obviously the more places we provide the more people will come into the Colony to take advantage of them. While it is admitted that there is a large number (probably 50,000 or more) not in school, it is probable that there is no very great number of these who wish to go to school for whom there are no places. It is estimated that there are 200,000 children of 5-14 years of age but that at least 30,000 of these are working and would not come to school in any case. There are nearly 150,000 children in school.

Two sessional schools are educationally unsound and this is fully realized by Government. The Director of Education is putting a ten year plan, which is designed to meet this situation and the shortage of places, before the Board of Education at its next meeting.

In his remarks concerning the general housing shortage in the Colony, my Honourable Friend Dr. S. N. Chau suggested that Government give further consideration to the housing of local, as distinguished from expatriate, civil servants. Here I wish to quote the Salaries Commission, who said, in paragraph

47 of their Report: —"Although the provision of Government Quarters for the whole of the public service would undoubtedly have many beneficial effects, it appears to us to be unpracticable on account of the vast expenditure which would be involved Most men in the public service are local residents and can reasonably be expected to rent their own accommodation We consider it reasonable that Government should as far as possible relieve overseas officers of the anxiety of finding accommodation for themselves and should continue to provide quarters for such officers, who should properly be expected to pay economic rents." Government's policy is, therefore, to provide as far as possible quarters for expatriate officers because their service in the Colony requires them to leave their homeland and for local officers, such as policemen, where it is necessary for them to be housed in the vicinity of their work.

It is perhaps not generally recognized that out of a total of some 21,500 Government servants (including approximately 1,000 expatriate officers, 9,500 temporary officers and 4,367 daily paid employees) we provide accommodation for about 4,500, or one-fifth of the total, and that of these 3,400 are local officers on monthly or daily pay. The position so far as the Police are concerned continues to improve with the completion of new stations and the erection of blocks of married quarters. To provide quarters for the remaining 17,000 would be prohibitively expensive, nor is there any certainty that local Government servants would continue to want quarters provided at a time of high construction costs if the present over-crowding in the Colony were to be eased. The present demand may only be temporary and thereafter the taxpayer might be saddled with a large number of blocks of quarters for whom no occupants could be found. On previous occasions, admittedly many years ago in the nineteen twenties, when Government rented one or two blocks of quarters for Chinese clerical staff, they did not prove as popular as might be expected and the experiment was abandoned.

The considerable expansion in the number of Government quarters for expatriate officers since the war was necessitated by the fact that this class of persons literally had nowhere to live without recourse to wholesale requisitioning. If Government had not acted there was a danger that the Administration would have broken down as a result of wholesale resignations. But the local staff are in a different position. They all have somewhere to live, though in many cases that accommodation is inadequate or far too expensive. The same applies, however, to non-Government local people, and Government's resources should be applied to the wider problem, a solution of which will benefit Government servants as well as the general population.

The launching of the Hong Kong Model Housing Association is, as my Honourable Friend said, a first step in the direction of tackling the problem as a whole, and it is hoped that this will be followed by other similar schemes. Proposals

are under consideration for devoting part of the balance of Hong Kong's allocation from Colonial Development and Welfare Funds to a housing scheme for the lower-paid members of the community. My Honourable Friend the Director of Public Works is already at work on a pilot scheme capable of considerable expansion, if the need for increased accommodation continues.

The Honourable M. M. Watson is perturbed by what he hears regarding the rule that Government officers may retire at the age of 45 and take their pensions. In paragraph 163 of the Report of the Salaries Commission, 1947, the Commissioners favoured the idea that Government should have power to call upon any officer to retire at 45 or thereafter and that officers should have the right of voluntary retirement at or after that age; but, quite rightly, the Commissioners qualified their approval by their inability to gauge what this change would cost the Colony or what measure of dislocation of the public service would result if many officers made use of their right. The recommendation was eventually implemented in the new Pensions Ordinance, No. 50 of 1949, but, as was explained in the Objects and Reasons to the Bill and further emphasized by my Honourable Friend the Attorney General in introducing the Bill, this innovation is intended to be regarded as experimental and it has been made clear to officers in the service that there may be a reversion to the previously existing age-limit if the experiment does not prove satisfactory by June, 1951. I must add that retirement at 45 is not just a local experiment. It is becoming more general in the Colonial Service and in particular in Africa, where the scheme already exists in Kenya, Nigeria, the Gold Coast and other West African colonies. Since the introduction of the experiment in this Colony 35 applications to retire before reaching the normal age of retirement have been received, 22 from expatriate and 13 from local officers. Retirement has been approved in 25 cases, but of these 9 had reached the age of 50 and could have retired under the previous legislation which permitted retirement between 50 and 55. The net effect of the introduction of retirement at 45 is, therefore, that 16 officers have taken advantage of it so far and 10 cases are under consideration. I can assure the Honourable Member that the situation will be closely watched, pending a review in the first half of next year.

The Honourable M. M. Watson has also asked for information on the progress of the new airport at Deep Bay. Preliminary work in connection with the new airport has started and a Survey Party is now investigating conditions on the site. This survey is likely to take six months. Meanwhile a number of important and intricate technical problems are being studied and in this we are receiving much valuable assistance and advice from authorities in the United Kingdom. Future progress on this great project depends on the results of the survey which alone can determine whether the site is suitable. If it is suitable, as we think it is, a further period of about six months

will be required to prepare the first accurate estimates of the ultimate cost of the airport, and these estimates will require consideration by Government. While a very rough guess of £ 4,000,000 has been made, I cannot attach any reliability to this figure, nor, I regret, is it possible at this stage to say when the new airport may be in operation, but it will not be before 1952.

My Honourable Friend Mr. Watson has stated that the continuance of the Government monopoly in rice is contrary to the principles of English mercantile practice, and he advocates a return to free trade in this key commodity. But in maintaining the purchase and importation of rice on an inter-Governmental basis Hong Kong does not stand alone. The export trade in rice from Siam and Burma is still firmly in the hands of the governments of those countries and we are following a policy which is in line with that of every other rice-importing country in the Far East. It is true that since the end of 1949 the International Emergency Food Committee has no longer been allocating rice on a world basis. But the decision to end allocation by international agreement was taken during the summer of 1949 when food prospects in the Far East looked much brighter than they do to-day. Last summer it looked as though rice supplied in the Far East would be sufficient to meet the requirements of all nations. To-day, due to unsettled conditions in Burma and Indo-China, South East Asia's exportable surplus of rice has dropped from 5 million tons pre-war to what in 1950 is unlikely to be more than 2 million tons, while China, always a deficiency territory in rice, is faced with what has been described as possibly one of the worst famines in her history. The need to secure supplies of rice for this area is very grave, and in a few months it may be desperate. Government would be failing in its duty if in these circumstances it took the slightest risk where feeding the population of Hong Kong is concerned.

There is no doubt that if merchants in Hong Kong were able, and were permitted, to import rice freely from Siam and Burma the price of what is called free market rice would fall significantly, although even then it would not fall below the price of Government's rationed rice since we all have to pay the same price for our rice in the producing countries. But I ask my Honourable Friend to look further ahead. In six months, with free trade in rice, there would have been over-purchasing and the supplying countries would have sold what they had; the cupboard would be bare, both here and in Siam and Burma. It is essential that we should receive a guarantee in the shape of a contract with the exporting country for our minimum requirements of rice. This, I am glad to say, has already been done. Our contract for the current year for Siamese rice is already signed. It will be appreciated that the cost of laying in stocks on this scale is considerable. From the aspect of security and good housekeeping, it is necessary that adequate stocks of rice should be kept in Hong Kong, and it is only Government which can carry the financial burden amounting

to many millions of dollars. Even if there were adequate rice supplied from the rice-exporting countries to enable the market in Hong Kong to be freed, it is obviously essential in present circumstances that an efficient and practical rationing system must at all times be in operation, and again it is only Government which can regulate and operate such a scheme. The prospect of Hong Kong obtaining a larger share this year than hitherto of the available rice has made possible Government's decision to extend the rationing system to include all persons with one year's residence in the Colony. This will bring the rationed population up to a total of 1¾ million. The extension will come into force on 1st April.

The question of the quality of Government's rationed rice, which my Honourable Friend mentioned, brings me again to the subject of free market rice. During the past few years, since the war, there has been a continual flow of high-grade Kwangtung rice into Hong Kong at prices which were at times below Siam's export prices. This flow of rice from China into Hong Kong was not due to the kind heartedness of the rice growers in China; it came here obviously because the rice growers were able to obtain better prices for their rice in this Colony than in their own country. It is an ill wind which blows nobody good and in this instance China's currency troubles benefitted the rice consumers of Hong Kong. Although the prices of this Chinese rice have varied considerably from time to time the availability of these large supplies of good quality rice has meant that there has been a comparatively small demand for Government's rice imported from Siam, which, admittedly, for reasons beyond our control, has not always been of good quality. Government has consequently had difficulty in turning over its stocks and they have had to be stored for longer than is desirable if the quality of the rice is to be maintained. The public has preferred to buy the higher grade Chinese rice even when its cost was higher, sometimes considerably higher, than the rationed rice. During the recent increase in rice prices public attention has been focussed almost entirely on the prices of this Chinese rice and the fact that Government rice has not risen in price has been overlooked. The ability of the man in the street to afford rice of a grade higher than he would have bought before the war has been an important social phenomenon with which we have had to contend. Standards of living have risen and the demand for the highest grades of rice is becoming greater than the rice-exporting countries of South East Asia can supply. Accordingly, Government has, in its recent negotiations with Siam, stressed the need for better quality rice than has been allocated to this Colony hitherto. An improvement in the rationed rice can therefore be expected, not only for this reason, but because with the drying-up of supplies from China there is now a much greater demand for and turn-over in Government rice and our supplies from Siam are consequently stored here for a comparatively short time and therefore retain their quality. Nor is it to be expected that these Chinese supplies will be resumed in the foreseeable future.

Honourable Members will observe from what I have said that on the one hand the free market in local rice is becoming of less consequence in our economy, and may in fact disappear altogether, while on the other hand Government is doing everything possible to extend rationing and to improve the quality of rationed rice. I must stress again that the maintenance of adequate day-to-day rice supplies and of rice reserves for this Colony is of the utmost importance—vital importance—and that such supplies and reserves can only be maintained by Government. The situation in 1950 is quite different from what it was in 1941, and we cannot—we dare not—leave such a vital matter in the hands of private enterprise.

Government sympathizes, of course, with the very natural desire of the Hong Kong Rice Importers to re-enter the field and be allowed to import rice into the Colony, as they did before the war. Provided we are satisfied that the measures which Government is taking for the procurement of rice will maintain adequate day-to-day supplies, at a reasonable price, and an adequate reserve, there would be no objection to the private importers entering the purchasing field in Siam with a view to the importation of certain grades of rice which are not the subject of agreement between this Government and the Siamese Government. But the extent to which the latter Government would be willing to allow the export trade in rice to return to normal channels is unknown. One thing is certain and that is that the quantities of rice which would be available would be limited. Government is giving this matter careful consideration and a further statement will be made in the near future.

The important effects of rice prices on the social and economic structure of the Colony have been stressed by several Honourable Members and, I can assure this Council, are fully realized by Government, which will continue to keep the prices of the rice which it supplies to the public as low as possible.

The Hon. Dr. Chau has said that every possible encouragement should be given to the farmers of the New Territories to produce more food, especially rice and vegetables. The maximum amount of rice which could be produced in the New Territories is such a minute fraction of the Colony's requirements in this commodity that Government would prefer to encourage the production of more vegetables rather than rice. This it is doing through the Government Wholesale Marketing Scheme—a scheme which has been much criticized but one which Government considers should be continued and one which can and will be improved—and by the supply of fertilizers to the farmers. Contrary to reports which have appeared in the press, Government will continue to supply nightsoil to the farmers after the middle of next month and in the meantime is pressing ahead with experiments to find a method of rendering the nightsoil innocuous from the health point of view and of producing from the city garbage fertilizers which have

no objectionable features. As Your Excellency said in your address three weeks ago, the local vegetable growers have broken all records during the past year and the Colony is now more nearly self-supporting in this respect.

The Honourable C. E. M. Terry invited Government's attention to the publicity recently given to alleged exorbitant rent demands which are being made on farmers in the New Territories, and pointed out the harmful effect such demands would have on the efforts to make the Colony self-supporting in vegetables and to reduce the cost to the consumer. In this connection I would invite the attention of Honourable Members to an account of an interview given to the press by the District Commissioner of the New Territories which appeared in the "South China Morning Post" on March 24th. The district Commissioner stated that, in his view and that of his District Officers, the reports of farmers being exploited by their landlords are greatly exaggerated. In fact, no complaints had reached his office regarding rent increases and he explained that, although in the New Territories the tenant of land is not protected by the Landlord and Tenant Ordinance, he is protected by the fact that any dispute concerning land can be brought before the District Land Court, a procedure of which the farmers are well aware and quick to avail themselves. I would also explain that rents in the New Territories are paid in kind rather than in cash, so that, generally speaking, where it is alleged that rents have been raised, the enhanced prices of rice or vegetables are the cause and not the effect of the so-called increase in rent. The industrialization of certain areas, such as Tsun Wan, the urbanization of other areas, such as Fan Ling, and the demand for building sites near the main roads throughout the Territories, are bound to cause the displacement of a certain number of rice or vegetable farmers. These men will seek land elsewhere and it is probable that this movement will involve some adjustment of rent levels so far as they are concerned.

Lastly, I come to the question of the high local cost of living. My Honourable Friend, Mr. Terry, deplored the fact that every event outside or inside our borders is made the excuse for an increase in prices and declared that Government should check these practices and make a determined attack on the high cost of living. Government agrees that the policy of meeting increases in the cost of living by increased monetary allowances can only result in an inflationary spiral. As I said earlier on, Government hopes to be able to supply the public this year with Siamese rice in sufficient quantity and quality at prices which will be considerably lower than the prices which they have been paying during the last six months for the free-market rice which was available from China. As the Colony becomes more and more self-supporting in vegetables and as the Vegetable Wholesale Marketing Scheme is improved, it is hoped to reduce the price of vegetables. Government views with grave concern the high price of local fresh fish, which is

believed to be due to the existence of a "ring" of buyers who secure control of the fish that is sold by auction at the Wholesale Fish Market. A committee is being appointed to devise ways and means of countering the activities of this "ring" and bringing down the price of fish. Government shares the view of the Honourable Member that the slow out steady increase in the price of many commodities since the devaluation of the Pound Sterling has no economic justification whatever. My Honourable Friend Mr. Cassidy said the other day, in another place, that many merchants find price control a thorn in the flesh and that they would like to see the last of it. I think I can truthfully retort that the suffering public find the prices charged by the merchants a pain in the neck, or rather in the pocket, and that they would like to see more price control. The Price Controller has accordingly been instructed to make fuller use of his powers with a view to stopping this tendency to exploit the consumer. Here the consumer can help himself by reporting what he considers unjustified increases in prices to the Price Controller, so that they can be investigated, and I invite the public to co-operate with the Authorities in this respect.

THE FINANCIAL SECRETARY:—Your Excellency, the winding up of this debate is a heavier task than usual as most of the points raised by Unofficial Members in their speeches last week were of great importance to the Colony. I will start with the question of denial claims and payment in respect of requisitioned premises, which together with the proposals for increased taxation were the matters which received the greatest attention in the course of the debate.

When I am in London, I will certainly press strongly for the early settlement of these denial claims and I will represent the views which Unofficial Members have expressed both in regard to these claims and that the contribution towards the cost of reinforcements should not be on such a scale as to defer appreciably much needed development in the Colony. In this connection, the Honourable Sir Man-kam Lo, on behalf of his unofficial colleagues, asked for an assurance that no settlement would be reached at the London conference without prior reference to this Honourable Council. Your Excellency will make a statement in regard to this request at the conclusion of the debate. The Honourable Sir Man-kam Lo has also referred to the possibility of introducing a new procedure in respect of service requisitioning and this, too, I will raise in the course of the discussions in London.

On the question of the payment of compensation in respect of premises requisitioned in connection with the increase in the garrison, urgent representations have been made through the Secretary of State to the departments of His Majesty's Government concerned, and I am happy to be able to state that it has now been agreed that compensation should be paid in respect of new buildings roughly on the basis of rateable value. The incidence of insurance and repairs will however naturally also

have to be taken into consideration. It is understood that the Military Authorities hope to make payments on account in the very near future and steps are being taken to amend the Defence (Compensation) Regulations to bring them into line with the scale of payment now agreed upon. It will be recollected that these regulations, as they now stand, provide that no account should be taken of increases in rents resulting from the last war, and they therefore limited the compensation paid to the pre-war rent plus a small percentage. This obviously would not have been equitable in the case of newly erected buildings. The Military Authorities are anxious to release requisitioned buildings the moment this becomes possible. But so long as the garrison remains at anything like its present level, it will be necessary to rely on requisitioning. The possibility of release is, however, constantly kept under review but the Military Authorities naturally cannot commit themselves to a firm date in any particular case.

I will now turn to the high cost of administration in regard to which several speakers have expressed concern. Their concern is certainly shared by Government. Unfortunately this high rate of Government expenditure is not a phenomenon peculiar to Hong Kong, but here it is largely due to the unsatisfactory political situation in South East Asia. Threats to law and order are increasing. We must at all costs meet these threats, for if we fall in this, everything else we plan will be in vain. Unfortunately this renders a heavy increase in expenditure on Police services and other security measures inevitable.

Nevertheless, in spite of this, we are persevering in a modest way in the expansion of our social services such as education and health. This too cannot be accomplished without additional expenditure. It must be accepted, therefore, that so long as we pursue this policy there is no possibility whatever of reducing our administration costs.

It is clear from the speeches of Honourable Members that they are in agreement with this policy, and what indeed is the alternative? We could of course say to ourselves that much heavier expenditure on security measures being unavoidable, we must offset this by arresting all expansion of our social services and closing down completely some departments which, although perhaps not of prime importance, do certainly perform some useful function, for otherwise they would not have been created.

That would be all very well if the wave of unrest which is now passing over the world were a merely temporary phenomenon, but experience since the close of active hostilities in 1945 does not suggest that this is the case. Therefore, to adopt the policy which I have just outlined would mean complete stagnation. That I am sure is not what the community really wants, but nevertheless I do fully agree that we should cut down

expenditure wherever we possibly can. It is also clear that we cannot allow our expenditure to mount indefinitely, and there may come a time when some quite drastic cuts will be necessary.

On the subject of possible immediate cuts, I was glad to see that the Honourable T. N. Chau raised the question of the cost of uniforms. This is a matter which has long been engaging the attention of Government. In the last couple of years the issue of uniforms has been cut down in various directions. Patterns of uniforms for the lower grades have been standardized and the majority are now made in the Prison. Some of the more elaborate types of uniform have been discontinued. The cost of uniforms exclusive of the Police Force and Defence Force included in the present estimates amounts to \$914,750 as compared with \$954,645 in 1949/50 and \$984,970 in 1948/49. Thus our efforts so far have resulted in a steady drop in the cost of uniforms amounting to \$70,220 over the last two years, in spite of the fact that costs have been steadily rising.

I was interested to hear the Senior Unofficial Member express the view that the issue of uniforms should be confined to the Police, Fire Brigade, Revenue and Sanitary Departments and the Post Office. There are some other departments such as the Marine and Prisons Departments and certain branches of the Medical Department in which the continuance of uniforms is obviously necessary, but the possibility of discontinuing such issues in some other departments will be explored. It might for example be possible in certain cases to substitute armllets or metal badges and I will circulate a note to Finance Committee on the subject in due course.

Then the question of the cost of Government transport was also raised. It is true that this is high, amounting to \$2,257,995 as compared with \$2,363,350 for the year just closing. Thus again we have managed to effect a saving, this time of \$105,355, in spite of the fact that new departments such as the Essential Services Corps and Registration Scheme have come into being and that there has been a greater demand for transport in certain other directions.

As Honourable Members are aware, a committee was appointed last year to consider the whole question of Government transport and they have recommended an establishment which they consider is the minimum necessary to meet our requirements, and which represents a reduction of 42 vehicles. We are gradually bringing departmental establishments into line with these recommendations, but I do not think that we can contemplate any reduction beyond the figure which the committee have recommended, though some further reduction in pool vehicles may be a possibility in another six months or so. The committee went into the matter very thoroughly indeed and I am sure that their recommendations are sound.

Several speakers have enquired about the results achieved by the visit of Mr. S. S. Ross, the Adviser on Office Organization and Methods. Mr. Ross spent six months in the Colony which unfortunately only sufficed to enable him to carry out a thorough investigation of two departments, the Colonial Secretariat and the Public Works Department.

In the case of both these departments, he recommended certain reductions in staff, but in the case of the Public Works Department he also recommended a number of transfers of daily paid staff to a monthly paid basis, chiefly with the idea of building up a more permanent class of foremen. The staff reductions in the Secretariat, which Mr. Ross proposed, have been rather upset by the expansion of the Defence branch and the need for supplying trained staff for new organizations connected with security, such as the Essential Services Corps and the Registration scheme. For this reason, it has not yet proved possible to carry out fully the reductions recommended, but the Secretariat staff has so far actually been reduced by three executive officers, seven clerks, five messengers and one driver, though of these, two executive officers and two clerks are still held against the Secretariat establishment, as they are seconded for employment in some of the new security organization or are on leave.

In the Public Works Department, the implementation of Mr. Ross' recommendations for reductions in staff is only in its early stages, but since September the services of 125 employees have been dispensed with. A further reduction of 208 employees is contemplated. Mr. Ross recommended more sweeping reductions than these, but no decision has yet been reached on a number of proposals which appear to be open to objection, while some, like the abolition of water meters with a consequent saving of staff amounting to some 200, have in view of the rather precarious water supply position not been accepted.

The Honourable Sir Man-kam Lo asked for a statement as to the steps Government had taken or were contemplating in regard to the improvement of the water supply. He made particular reference to the Tai Lani Chung scheme. This has been under discussion with the Secretary of State for some considerable time, and unfortunately detailed examination has revealed a number of rather serious objections, of which I will only mention two to-day. In the first place the scheme is of course expensive, the minimum expenditure being estimated at \$64 million, while if the whole scheme is carried out the expenditure would rise to the region of \$100 million. Naturally this could not be financed from Revenue, and I am touching later in my speech on the difficulty of raising loans. However, a much more formidable objection is the fact that the scheme would probably produce no appreciable quantity of water for seven years after full scale work had commenced.

In those circumstances, a number of smaller alternative schemes are being investigated, including a much modified version of the Tai Lam Chung scheme, which, though not providing the storage capacity of the original scheme, would at least produce very much quicker results. The provision of water in the event of an emergency arising through a delay in the onset of the rainy season has been very closely studied, and developments in other countries in regard to the artificial production of rain are being watched with interest.

The Honourable Sir Man-kam Lo also commented on the fact that the total provision for the Social Welfare Office showed a reduction as compared with last year. Actually there has been an increase of over \$50,000 under Personal Emoluments, but there has been a heavier decrease in the vote for welfare work. This vote covers the supply of free meals, where this is necessary, for the most vulnerable group in the community, expenditure on rehabilitation measures for these persons, and welfare work in respect of destitute children. I am assured that the vote as it stands is just sufficient to continue these measures on their present scale so long as they are restricted to persons who have some genuine claim upon the Colony. But if any disaster such as another big fire or typhoon should occur, the vote will certainly need supplementing and, if the necessity arises, I have no doubt that Finance Committee will agree to the provision of additional funds.

I hope that the Honourable P. S. Cassidy proves to be right in his suggestion that the tax on electric signs will bring in much more than \$250,000. I must confess that I did not realize that the tax on any existing sign would work out to quite such a high figure as the one of \$11,400 which he quoted. There are, however, not a great many of these very large signs, and I fancy that the one which the Honourable Member had in mind is probably the biggest of all. The great majority do not exceed 10 feet by 2 feet, and so would only be charged at the rate of \$100 a year. It requires 1,500 of these signs to produce a revenue of \$150,000, even if the balance of \$100,000 is forthcoming from the larger type of sign. The estimate of \$250,000 is based on a preliminary reconnaissance carried out by the Urban Council, but without actually measuring the signs it can only be a guess. The Honourable Member's suggestion that the tax should be extended to hoardings and painted wall signs will be gone into.

I was glad to see that several members agreed that the present position, with cost of living allowance amounting to two thirds of the cost of basic salaries was quite absurd, and that some measure of consolidation should be proceeded with. One Honourable Member hoped that such measures would be discussed with employers generally and this suggestion will be borne in mind. The hope was also expressed that the effect of the consolidation on pensions would be given full weight and this naturally will be done. I would, however, take this opportunity

of drawing attention to a point which is not generally realized. That is that the cost of pensions so far from having increased in the same proportion as other heads of the Estimates, has actually dropped from 7.1% of the total expenditure in 1939 to 3.9 per cent. for the coming year.

There has been some criticism, chiefly outside this Council, as to the difficulty in ascertaining the actual amounts spent on Education, owing to the practice of including grants to Grant-aided and Vernacular schools under the Subventions Head. The grouping under one head of all grants made by Government was introduced for the first time in the 1948/49 Estimates at the request of this Council, and in the course of that year's Budget debate, the then Senior Member described the arrangement as admirable. It is purely a matter of whether you want to see at a glance how much the Colony pays by way of Subventions, or whether you want to see on one page the full cost of Education. Incidentally, the inclusion of the Subventions to Grant-aided and Vernacular Schools under the Education Head would still not show the total cost of Education to the Colony, as the capital expenditure would necessarily continue to be shown under Public Works Non-Recurrent or Loan expenditure.

The fact is that the Estimates follow a form prescribed for all Colonies, and no very drastic changes are possible. It is so designed as to fit in with the measures necessary for the control of the emoluments paid to every officer, and to facilitate examination of the detailed expenditure by this Council and by the Director of Audit. The Estimates can never take the form of a commercial profit and loss account, as much of the expenditure incurred is not revenue producing. In any case, in what commercial accounts would one find the details concerning the emoluments of the staff that are to be found in the annual Estimates? The costing of various services and functions in the commercial manner, whilst providing some over-all indication of the cost of various services and the revenue which might derive from some of them, would necessitate a more complicated system of accounting and would weaken the control of itemized expenditure by this Honourable Council. The best method of making the full cost of Education and other important services immediately apparent, would probably be to issue a separate statement giving total costs and the percentage which the total bears to the total expenditure. This will be done in connection with next year's estimates.

The Honourable P. S. Cassidy suggested that there would be advantages in splitting up the Budget into sections and debating groups of departmental estimates at separate sittings. Government is quite willing to consider a modification of the present procedure, but there are certain rather important points which should not be lost sight of. If it were decided to have separate debates on each group of departmental estimates the time factor would almost certainly necessitate the abolition of the present Estimates Committee system. It should be possible

to introduce the Budget about the middle of February, but of course the earlier the estimates are presented the greater will be the number of corrections necessary before they are finally passed, and these might become quite unwieldy. The Estimates this year were introduced rather earlier than before, and the point I have just made is illustrated by the large number of adjustments which it has in consequence been necessary to make in Select Committee. It may not be realized that one of the many trials which beset those who are concerned in the preparation of Estimates is the spate of variations and last minute proposals received from Departments which attain their maximum intensity during the last two or three weeks before the Budget is passed. Departments think they will be able to complete certain payments before the end of March. Then later they find this is not possible. This is the reason for the re-vote of \$1,300,000 recommended by the Select Committee this year.

The next consideration is that when a group of departmental estimates is debated several speakers may declare their intention of recommending in Select Committee the inclusion of certain new items. Having stated this publicly, they will be more or less committed to this increase. This process may be repeated with other groups of departmental estimates and Government, which is responsible for finding the revenue to balance the Budget, may finally be faced with a deficit which they did not expect or one larger than they bargained for. Then, there is a good deal of interlocking between departmental estimates and, in the debates on the various groups of estimates, it would be practically impossible to avoid a good deal of repetition. The adoption of such a procedure in one Colony proved a failure, and I am not aware that it has been tried anywhere else. Government does not therefore favour it and sees advantages in dealing with a complete picture rather than in sections.

There has been some criticism that it is wrong to meet capital expenditure from current revenue. But have we really any alternative? We finally obtained the approval of the Secretary of State for the issue of a Rehabilitation Loan amounting to \$150 million. Unfortunately the situation changes rapidly and by the time this approval was received the favourable moment had largely passed. Nevertheless, we successfully issued \$50 million worth of bonds but we could not have managed more at that time. There was a moment later when a small issue could have been made, but certain Exchange Control difficulties in respect of the issue of bearer bonds could not be resolved in time. I do not have to elaborate on the impossibility of floating any Government issue at a reasonable rate of interest on the local market at the present time. Balance of payment problems still make it necessary to keep to an absolute minimum the calls by Colonial Governments on the London market, and recourse to that market can only be sanctioned in very rare cases, and then only if all other possible sources of finance have been fully utilized. I hope that I have

said enough to show that we have little option at the moment but to meet capital expenditure from current revenue, and also to emphasize the importance of building up adequate reserves. Indeed if we had not succeeded from the start in building up a surplus, even though only on a modest scale, much of the restoration of buildings, water supplies and other essential services which were such a remarkable feature of the early years of the re-occupation would never have taken place. We have already charged some \$113,000,000 to Loan Advances and by the end of 1950/51 this figure is expected to be increased to over \$137,000,000. We have so far only raised \$50 million by the issue of bonds and have financed the balance of this Loan expenditure from our surplus funds, thus saving very substantial sums in interest. As the immediate prospects of raising any further Loan are far from good, it is proposed to set off part of the surplus we have accumulated against the Loan advances. The extent to which this can be done will depend to some extent on the degree to which outstanding claims arising from the last war are satisfactorily settled at the forthcoming conference in London.

The Honourable C. E. M. Terry suggested that the deficit might be covered by a transfer of part of the profits of the Supplies & Distribution Department trading account. The present procedure is to transfer to Revenue in arrears an amount equivalent to the full cost of operating the Department during the previous year, and I should hesitate to do more than this until the department is finally wound up.

There are several reasons for this. One is that included in the Supplies & Distribution Suspense Account are sums derived from the sale of stores which were purchased from War Office funds and sent out here in the early days of the reoccupation. As no documents arrived when most of the consignments were received in those days, it is extremely difficult to determine which stores were paid for by His Majesty's Government and which were purchased from Hong Kong funds. Certain payments have been made to the War Office on account in respect of stores which were obviously purchased from their funds, but what further sums are due is open to question. I hope that it may be possible to reach some final settlement when I am in London, as obviously the matter can only be dealt with on a rough and ready basis.

A further point is that when the revaluation of sterling took place we might have incurred a very heavy exchange loss on our Japanese trading account. By taking prompt action we avoided any loss, but one never knows what new development may occur in the future. It appears to be more prudent, therefore, to wait until the department is finally wound up before making any transfers to revenue over and above the annual cost of operation of the Department.

I have been gratified to find however that the majority of speakers have accepted the fact that the deficit on the Budget must be covered, and the difference of opinion really narrows down to the manner in which this should be accomplished. It has been suggested that to do this by an increase in the standard rate of tax under the Inland Revenue Ordinance is inequitable as only some 100,000 persons out of a population of two million pay this tax. As one Honourable Member aptly put it, it seems wrong for the comparative few to bear the cost of providing security for the many.

I have some sympathy with this view point, and I can assure you that Government has devoted much time to devising means to ensure that persons flocking into the Colony, to take advantage of the security and facilities provided, should make some contribution towards the cost of its administration. It is extremely difficult to exact any adequate contribution from the class of rich refugees, as they are mostly living on capital and are, therefore, only affected by indirect taxation.

There is also a strong feeling that the mass of the people should make some contribution, even though it must necessarily be a small one, and some form of head tax has often been suggested. The Honourable S. N. Chau proposed a variation of it by suggesting that a charge of \$5 should be made for entity cards. The question of making such a charge was considered by Government, but when the matter was discussed, the majority of opinion was against such a step, because it was felt that as we were not offering anything of concrete benefit, it would probably operate against the success of the registration scheme.

Perhaps I may be permitted to take up a little of Council's time to discuss very briefly some of the problems presented by a head tax. My experience leads me to believe that this system is only possible in a partly developed country. It might be possible, by making payment of the tax a condition of the validity of ration cards, to collect it from substantial numbers of people, but there will always be large numbers who are unwilling or unable to pay. You could not imprison them for non-payment as this would cost more than the tax. They must, therefore, be provided with a means of working off their tax and this would prove difficult in Hong Kong, though the levelling off of a hill might be a suitable task. Unfortunately, it would be beyond human power to locate tax defaulters and to ensure that they actually did work off their tax and once this was realized, non-payment would become general.

The possibility of imposing some sort of landing tax on travellers arriving by rail, sea or air has been considered, but has been rejected owing to the many difficulties to which it would give rise. I will not go into details, but one complication is that a very high proportion of such traffic is made up of

travelling traders who are continually going backwards and forwards and whose journeys contribute in no small degree to the trade of the Colony.

I really can assure Honourable Members that we have considered very carefully all the suggestions for indirect taxation which have been put forward, and many more as well. Some of them are worth proceeding with, but the yield is comparatively trivial. I will not take up the time of Council by outlining the various objections to many of the others, but I will be happy to explain them in detail to anyone who may be interested. Perhaps, however, I should say that the question of a purchase tax has been considered in consultation with experts in the United Kingdom, who are leading authorities on the subject, and who have advised a number of delegations from other Governments. They agree that such a tax could not be worked satisfactorily in conditions such as exist in Hong Kong.

It has been suggested that we should increase our duties on liquor and tobacco as an alternative to raising our direct taxation. The point about this is that Hong Kong is a free port and an entrepot. Our concern is that goods which are landed here or are manufactured here should be exported as soon as possible to other countries. In some cases, the goods exported have already paid our local duty and, from time to time, because of unstable conditions, no drawback is claimed. But if our local duty is too high these goods will no longer be acceptable on these terms. Moreover we must be very careful to see that our duties do not reach a point where it will become profitable to re-introduce into Hong Kong cigarettes—for example—which have been exported from bond to a neighbouring country. Being a free port, we do not have a large preventive staff to discourage this sort of thing, and if our duty paid exports dry up and we have to pay a greatly increased preventive staff to prevent goods exported from bond coming back here, we shall indeed be in a sorry state. These remarks apply to some extent to liquor and there is also the point that a high rate of duty on Chinese liquor would give a great stimulus to the establishment of illicit stills, in respect of which we are having quite enough trouble already.

As regards an increase in the petrol tax, I am sure that on reflection it will be realized that the cost of petrol is an important item in all distribution costs and this affects food prices and building charges. Our tax on petrol is already one of the highest in the Empire and I am afraid that any increase would only re-act unfavourably on our cost of living.

We, therefore, seem to be left with two measures capable of producing a substantial yield, an increase in the standard rate of tax under the Inland Revenue Ordinance, and the suggestion made by the Honourable Leo D'Almada of a business registration tax. We have of course considered this latter proposal before, though admittedly not on quite the same lines.

The Honourable Member, will, I am sure, not object to my saying that he was not at that time particularly enamoured with the scheme. Now, however, it seems to be agreed that we should have a complete registration of the names of all the partners of a firm including their aliases. This indeed would be a very valuable step forward and would do much to put a stop to the kind of evasion to which I referred when moving the first reading of the Appropriation Bill.

As the Honourable Member correctly stated, there are believed to be some 21,000 businesses in operation of which some 12,000 appear to make less than \$7,000 per annum in profit, and are thus not liable to profits tax. While I appreciate that persons who already pay profits tax will prefer to pay a business registration fee of \$300 rather than have the rate of tax increased, I cannot imagine that this 12,000 who do not pay profits tax at all at the moment will be particularly enthusiastic over this new levy. On the other hand, these traders, although their businesses are small ones, are benefitting substantially from the security which this Colony offers. It is not therefore unreasonable that these 12,000 traders should be required to pay a comparatively small amount, towards the cost of maintaining that security. It only works out at 83 cents a day, and it must be a pretty poor business which does not produce sufficient profit to cover such a small levy.

This form of taxation is a little crude, but it would in fact constitute a minimum profits tax. It would produce a fairly substantial revenue but it would not cover the Budget deficit, which has now risen to \$8,699,603 for owing to the impossibility of completing payments this year in respect of the Kai Tak compensation on the scale originally contemplated, which was partly due to persons who had agreed to take land in exchange suddenly deciding to take cash. Select Committee have had no alternative but to recommend the re-vote of a further \$1,395,318 for these payments. There is also our contribution towards the cost of the reinforcement of the garrison to be considered, so the proposed business registration fee would require augmentation on quite a considerable scale, perhaps by a modification of Government's original proposal. This, however, will require further examination.

Government still holds the view that we should aim at a revenue for the coming year of at least \$204 million, and it is proposed to increase the Revenue total to this figure in the final print of the Estimates. As I have explained, Government will give further consideration to the manner in which this additional \$12 million should be produced, and in doing so the views expressed by Unofficial Members in the course of the debate will receive full consideration. Some legislation will undoubtedly be necessary, and Honourable Members will have a further opportunity for debate when this is introduced.

H.E. THE GOVERNOR: —Honourable Members, this has been a most useful, and to Government a very helpful, debate and I am indeed grateful to all who have taken part in it, whether Officials or Unofficials, and that leads me to comment on a remark that was made in an editorial in one of our most esteemed dailies; that remark referred to the Unofficial Members of this Council as "the Opposition". Now, I think that is incorrect. Were the Unofficial Members of this Council no more than the Opposition then presumably the Official Members would be the Government and since they are in a majority, they could steam-roller through every proposal of Government that was brought before this Council, but we know that in fact that does not happen. We know that always the fullest consideration is given to the views of the Unofficial Members, and we had a particular instance of that this afternoon in the speech that the Financial Secretary has just made. Rather, I would liken the Unofficial Members as being partners with the Official Members in the Government. Perhaps another analogy might be that the Unofficial Members are the spur where a spur is needed, or the check-rein where a check-rein is needed, and I leave it to their imagination to describe what the animal is to which the spur or the check-rein would be applied. I do not think it would be a racehorse. (Laughter).

In my address to this Council three weeks ago, I gave as the reason for our conservative budgetting the somewhat uncertain future of trading prospects in the next 12 months. I also said that there were certain warning signs or signals in the falling off of certain heads of revenue. Since then we have had another warning sign with the publication of the trade figures for February. Those figures show a drop of 20% as compared with the figures for the previous month. Admittedly, February included Chinese New Year, but nevertheless the falling off was appreciable and we must take account of those signs that are given to us.

I hope, as I am sure we all hope, that the Financial Secretary will have been proved wrong for the fourth time in succession, and that we shall end up with a substantial surplus, but we cannot reckon on that.

The Hon. Sir Man-Kam Lo, when dealing with denial claims, asked for an assurance that no final settlement will be reached at the London Conference without prior reference to this Council. I gladly give that assurance.

The question was put and agreed to, and the Bill was read a Second time.

THE COLONIAL SECRETARY moved: —

“That the Report of the Select Committee to which was referred the Appropriation for 1950/51 Bill together with the draft Estimates be adopted.”

He said: Sir, I wish to say, with regret, that the changes made by the Select Committee involve additional expenditure amounting to just under \$1,800,000.

Of this a little under \$1,400,000 is required for compensation in respect of Kai Tak airport. To some extent this is a revote, but in addition it is now known with greater accuracy what actual disbursements in respect of delayed and outstanding claims will be required next financial year.

Another major item is the inclusion of two new C. D. & W. schemes for projects in the New Territories which have just been approved by the Secretary of State. These total \$160,000 but the expenditure is off-set by a corresponding increase in revenue.

A third major item is an additional subvention of \$221,000 in respect of a building grant for a new school in Kowloon to be built by the Chinese Methodist Church.

It is also proposed to provide funds for a mobile cinema van, together with staff to man it, and the proposed expenditure on the Public Relations Office is increased by over \$40,000.

The remaining changes, which cover last minute departmental adjustments and corrections, have little effect on the original estimate of expenditure.

THE ATTORNEY GENERAL seconded and the motion was carried.

Council then went into Committee to consider the Bill clause by clause.

Clause 2.

THE FINANCIAL SECRETARY: —Your Excellency, I beg to move that in Clause 2 for the words "One hundred and ninety-nine million fifty-one thousand and thirty-seven" there shall be read the words "Two hundred million eight hundred and thirty-nine thousand and eighty-three".

Clause 2, as amended, was passed.

Schedule.

THE FINANCIAL SECRETARY: —Your Excellency, I beg to move that the Schedule be amended in every detail as recommended by the Report of the Select Committee, so that for the total of "One hundred and ninety-nine million fifty-one thousand and thirty-seven" there shall be read the figures "Two hundred million eight hundred and thirty-nine thousand and eighty-three".

The Schedule, as amended, was passed.

Preamble.

THE FINANCIAL SECRETARY: —Your Excellency, I beg to move that in the Preamble for the words "One hundred and ninety-nine million fifty-one thousand and "thirty-seven" there shall be read the words "Two hundred million eight hundred and thirty-nine thousand and eighty-three".

The Preamble, as amended, was passed.

Enacting Clause and Title.

THE FINANCIAL SECRETARY: —Your Excellency, I beg to move that in the Enacting Clause and Title for the words "One hundred and ninety-nine million fifty-one thousand and thirty-seven" there shall be read the words "Two hundred million eight hundred and thirty-nine thousand and eighty-three".

The Enacting Clause and Title, as amended, was passed.

Council then resumed.

THE FINANCIAL SECRETARY reported that the Appropriation for 1950-51 Bill, 1950, had passed through Committee with certain amendments recommended by the Select Committee, and moved the Third reading.

THE COLONIAL SECRETARY seconded, and the Bill was read a Third time and passed into law.

MOTIONS.

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that this Council approves that the estimates for revenue and expenditure for 1950-51 incorporating the amendments proposed by the Select Committee should be adopted and further that this Council approves the expenditure of \$24,068,164 on the items in the Schedule of Expenditure under the Rehabilitation Loan in the aforesaid Estimates which sum shall be met from loan funds and shall be charged as an advance from the surplus funds of the Colony pending reimbursement from loan funds.

He said: Sir, as Honourable Members are aware the issue of only \$50 million of the 3½ per cent. Rehabilitation Loan has so far been made thus affecting very considerable savings in

interest charges. The balance of Loan expenditure over and above this figure has been financed from surplus balances. The Resolution which I am now moving is necessary in order to authorize the continuance of this procedure, but as I have already explained it is proposed to set off part of the surplus we have accumulated against these Loan advances, though the extent to which this can be done cannot be finally determined until we know the results of the forthcoming conference in London, in so far as they affect outstanding claims arising from the last war.

THE COLONIAL SECRETARY seconded, and the motion was carried.

THE FINANCIAL SECRETARY moved the following resolution: —

Resolved that this Council approves, pursuant to section 4 of the Hong Kong (Rehabilitation) Loan Ordinance, 1947, a transfer of money between items of the Schedule to the aforesaid Ordinance be made in manner hereinafter specified: —

\$325,000 from item 10 to item 3

\$100,000 from item 10 to item 6

\$55,000 from item 10 to item 7.

He said: Sir, under section 4 of the Hong Kong (Rehabilitation) Loan Ordinance 1947 it is necessary for a transfer from one item of the Loan Schedule to another to be approved by Resolution of Legislative Council.

As Honourable Members are aware, a schedule setting out details of the proposed expenditure from Loan funds is attached to the present estimates, and the variations between items which it has been necessary to make are set out in the Resolution which is now before Council.

THE COLONIAL SECRETARY seconded, and the motion was carried.

THE FINANCIAL SECRETARY moved: —

That the additional supplementary provision for the third quarter of the financial year ended 31st March, 1950, Schedule No. 3 of 1949-50, be approved.

He said: Sir, the Special Warrants set out in this Schedule have all been approved by Finance Committee. The great majority do not appear to call for any special explanation and it will be observed that once again most of the larger items relate either directly or indirectly to Police or other security expenditure.

Then nearly \$3½ million has been spent on the repair and strengthening of the runways at Kai Tak, but \$1,200,000 of this is being refunded by H. M. Government, as much of the work was necessitated by the heavy machines now being used by B.O.A.C. Two large items of \$800,000 in respect of works executed on private account and \$500,000 in respect of the collection and storage of sand are self-balancing, as they are set off by corresponding revenue. Grants are also included of \$250,000 to the G.O.C.-in-C's fund for welfare facilities for the garrison, and \$100,000 to the Forces Civilian Entertainment and Welfare Committee.

There is a special warrant for \$357,000 covering the cost of repairs to the New Territories roads to enable them to stand up to the heavy military traffic, while a sum of \$750,000 has been provided to finance the work on the two military roads now under construction in the New Territories until the end of the financial year. This type of expenditure will of course be taken into consideration in the discussions on which I shall shortly be engaged in London in regard to our contribution towards the cost of reinforcements.

THE COLONIAL SECRETARY seconded, and the motion was carried.

ADJOURNMENT.

H.E. THE GOVERNOR: —That concludes the Agenda, Gentlemen. When is it your pleasure that we should meet again?

THE ATTORNEY GENERAL: —I suggest three weeks from to-day, Sir.

H.E. THE GOVERNOR: —Council will adjourn until three weeks from to-day.
